

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois-American Water Company and South:	
Beloit Water Gas & Electric Company	:
	:
Petition for Approval of Proposed	:
Reorganization In Accordance With 7-102	:
and 7-204 of the Public Utilities Act; For a	:
Certificate of Public Convenience and	:
Necessity Pursuant to Section 8-406; and	:
For Approval of Abandonment of Service	:
Pursuant to Section 8-508.	:

05-0724

ORDER

By the Commission:

Introduction

On November 16, 2005, Illinois-American Water Company ("Illinois-American" or "IAWC") and South Beloit Water Gas & Electric Company, ("South Beloit" or "SBWGE") jointly filed a petition seeking Commission approval pursuant to Sections 7-102 and 7-204 of the Illinois Public Utilities Act, (220 ILCS 5/7-102, 7-204), of a purchase by Illinois-American of the water assets of SBWGE. The joint petitioners were granted leave to amend that petition; they subsequently filed two amendments. In these amendments, pursuant to Section 8-406 (220 ILCS 5/8-406) of the Act, IAWC requested a Certificate of Public Convenience and Necessity to provide water service to the area that includes the area currently served by SBWGE, as well as certain areas abutting the current SBWGE territory. Also, pursuant to Section 8-508 (220 ILCS 5/8-508) of the Act, SBWGE sought Commission approval to permanently abandon its service territory, as of the date of closing of the acquisition.

Pursuant to due notice, trial convened on April 7, 2006 before a duly authorized Administrative Law Judge of the Commission at its offices in Chicago, Illinois. Appearances were entered by counsel for the Joint Petitioners and Staff. Testifying on behalf of Illinois-American were Bob Khan, the Manager of the Project Delivery and Development Services for IAWC's Chicago Metro Division, and Michael Hoffman, a Senior Financial Analyst, in IAWC's Rates and Regulation Division. Testifying on behalf of SBWGE were Richard Potter, who is Alliant Energy Corporation's ("AEC") Manager of the Substation Asset Care group of Wisconsin Power and Light Company ("WPL") and Barbara Siehr, AEC's Vice-President of Energy Delivery.¹ Testifying on behalf of Commission Staff were Michael McNally, of the Commission's Finance Department,

¹ Ms Siehr's testimony established that AEC is an affiliate of SBSGE.

Financial Analysis Division; Mary Everson, also of the Commission's Accounting Department, Financial Analysis Division; Thomas Q. Smith, of the Commission's Water Department, Financial Analysis Division, and Mike Luth, of the Commission's Rates Department, Financial Analysis Division. At the conclusion of this trial, the record was marked "Heard and Taken."

There are no contested issues in this proceeding.

Background

Illinois-American is a "public utility" within the meaning of the Act, as it is engaged in the business of furnishing potable water service to the public in the State of Illinois. Illinois-American has its principal office in Belleville, Illinois and presently provides water and/or sanitary sewer service to 293,000 metered customers in 125 Illinois communities.

SBWGE is an Illinois corporation, but, it is a wholly-owned subsidiary of Wisconsin Power and Light Company, ("WPL") a Wisconsin public utility. WPL, in turn, is a wholly-owned subsidiary of Alliant Energy Corporation. Because SBWGE provides water services to approximately 2,000 customers in South Beloit, Illinois and parts of Winnebago County, Illinois, it is a "public utility" within the meaning of the Act.

Currently, SBWGE provides water service from mains and services connected to and supplied through a single integrated water distribution system with the City of Beloit, Wisconsin. The water distribution systems of these two entities are connected at several points along the Wisconsin-Illinois state border. Meters measure water service as it is delivered to the customers or used by the utility. SBWGE has a limited number of water production facilities and, until recently, WPL has supplied SBWGE with water. On July 20, 2005, WPL sold its Wisconsin water production facilities to the City of Beloit. While WPL provides SBWGE with all services necessary to maintain and operate its water operations, the City of Beloit now provides SBWGE with its water supply.

SBWGE has no employees. All of its administrative and operational functions are provided by employees or contractors of WPL. The conditions for the provision of these services are established in a contract between SBWGE and WPL, which was recently approved by the Commission in Docket No. 03-0462.

The Transaction

Subject to Commission approval, Illinois-American entered into an Asset Purchase Agreement with SBWGE, pursuant to which, Illinois-American will purchase from SBWGE, for cash, all of the assets that SBWGE exclusively uses when it provides water service. The Agreement further provides that Illinois-American will acquire the rights and duties of SBWGE under certain contracts. It will also assume certain liabilities related to SBWGE's assets. The purchase price for SBWGE's assets, resulting from arms-length negotiations, is \$4,100,000.00. The Agreement also

provides that from and after the effective date of this acquisition, SBWGE will transfer its water utility business to Illinois-American. Illinois-American will continue to provide all of the water services that SBWGE is presently providing in the area presently served by SBWGE, without interruption.

IADC also seeks certification to provide water service to certain additional areas that abut the existing area that is currently served by South Beloit. The area for which certification is sought would represent a new district within Illinois-American's Chicago-Metro Division. A legal description of the area proposed is attached as Appendix A. The joint petitioners request that the Commission grant Illinois-American a Certificate of Public Convenience and Necessity for both the current SBWGE service territory and certain additional areas abutting the SBWGE's current service territory. Such a certificate would become effective on the effective date of the acquisition. The municipalities whose corporate boundaries lie within one and one-half miles of the area, for which, Illinois-American seeks certification are South Beloit and the unincorporated contiguous territory in Rockton and Roscoe Townships, in Winnebago County.

Upon Commission approval, Illinois-American will provide service to all of SBWGE's former water customers and service area, as well as to certain areas abutting SBWGE's service territory. When Illinois-American starts providing service to SBWGE's customers, there will be no public need or necessity for SBWGE to do so. Therefore, SBWGE requests Commission authorization to permanently abandon the provision of water service to all areas served by SBWGE.

In the Joint Application, Illinois-American stated that the proposed asset purchase is necessary to provide adequate, reliable, and efficient service to the customers in the area. It asserted that the asset purchase is needed because, based upon financial and administrative factors, SBWGE has decided to cease owning and operating its water system. Illinois-American has experience operating water systems, and is ready, willing, and able to purchase the assets of South Beloit's water distribution system. Illinois-American states that the Agreement is the least-cost means of satisfying the service needs of SBWGE's customers.

The Applicable Laws

Section 7-102 of the Act requires Commission consent and approval before a Public Utility may transfer or sell assets and/or operations to any other public Utility. (220 ILCS 5/7-102(b)). This Commission recognizes that the Joint Petitioners' requests for approval is consistent with the PUA.

a.) Section 7-204(b) of the Act

Section 7-204(b) of the Act requires the Commission to make the following findings when determining whether to approve the acquisition:

- (1) the proposed reorganization will not diminish the utility's ability to provide adequate, reliable, efficient, safe and least-cost public utility service;
- (2) the proposed reorganization will not result in the unjustified subsidization of non-utility activities by the utility or its customers;
- (3) the costs and facilities are fairly and reasonably allocated between utility and any non-utility activities in such a manner that the Commission may identify those costs and facilities which are properly included by the utility for ratemaking purposes;
- (4) the proposed reorganization will not significantly impair the utility's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure;
- (5) the utility will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois public utilities;
- (6) the proposed reorganization is not likely to have a significant adverse effect on competition in those markets over which the Commission has jurisdiction; and
- (7) the proposed reorganization is not likely to result in any adverse rate impacts on retail customers.

(220 ILCS 5/7-204(b)).

b.) Section 8-406 of the Act

Illinois-American seeks the authority to purchase the water distribution assets from South Beloit and to provide water service to the customers of South Beloit pursuant to Section 8-406 of the Act, which provides as follows:

- (a) No public utility not owning any city or village franchise nor engaged in performing any public service or in furnishing any product or commodity . . . and not possessing a certificate of public convenience and necessity from the Illinois Commerce Commission . . . shall transact any business in this State until it shall have obtained a certificate from the Commission that public convenience and necessity require the transaction of such business.
- (b) No public utility shall begin the construction of any new plant, equipment, property or facility which is not in substitution of any existing plant, equipment, property or facility or any extension or alteration thereof or in addition thereto, unless and until it shall have obtained from the Commission a certificate that public convenience and necessity require

such construction. . . The Commission shall determine that proposed construction will promote the public convenience and necessity only if the utility demonstrates: (1) that the proposed construction is necessary to provide adequate, reliable, and efficient service to its customers and is the least-cost means of satisfying the service needs of its customers; (2) that the utility is capable of efficiently managing and supervising the construction process and has taken sufficient action to ensure adequate and efficient construction and supervision thereof; and (3) that the utility is capable of financing the proposed construction without significant adverse financial consequences for the utility or its customers.

(220 ILCS 5/8-406(a) and (b)).

c.) Section 8-508 of the Act

SBWGE seeks approval to permanently abandon the provision of water service in all areas it currently serves, as of the date of closing of the acquisition. Section 8-508 of the Act provides that:

Except as provided in Section 12-306, no public utility shall abandon or discontinue any service or, in the case of an electric utility, make any modification as herein defined, without first having secured the approval of the Commission, except in case of assignment, transfer, lease or sale of the whole or any part of its franchises, licenses, permits, plant, equipment, business, or other property to any political subdivision or municipal corporation of this State.

(220 ILCS 5/8-508).

The Evidence Presented Regarding the Criteria Set Forth in Sections 7-204, 8-406(b), and 8-508 of the Act

South Beloit's Evidence

Barbara Siehr, the Vice-President of Energy Delivery for Alliant Energy, testified as to the corporate structure of Alliant Energy, which involves SBWGE. Alliant Energy Corporation was formed on April 21, 1998 as a result of the merger between WPL Holdings, Inc., IES Industries Inc., ("Industries") and Interstate Power Company ("IPC"). The Commission approved the IPC and South Beloit Water, Gas and Electric Company's Joint Merger Application in Docket No. 96-0122. AEC is a registered public utility holding company and is regulated by the Securities and Exchange Commission under the Public Utilities Holding Company Act ("PUHCA"). AEC has two direct public utility subsidiaries, IPL and WPL. Additionally, WPL has a wholly-owned utility subsidiary, SBWGE. SBWGE is a public utility subject to the jurisdiction of this Commission.

Ms. Siehr averred that SBWGE is a utility company operating within the State of Illinois. It provides retail water, electric, and gas utility service in and around the City of South Beloit, Illinois. SBWGE provides water distribution service to approximately 2,000 residential, commercial, and industrial customers in nine communities in northern Illinois, including the City of South Beloit and surrounding parts of Winnebago County, Illinois.

Ms. Siehr stated that in mid-2002, AEC announced its intention to sell its Illinois water operations. This divestiture is part of a plan to narrow AEC's business portfolio to operations that relate to its strengths and core competencies, and either already contribute meaningful earnings and cash flows, or have the potential to do so. As part of this plan to narrow its focus, in the last few years, AEC has either sold or is in the process of selling several assets, including the Kewaunee Nuclear Power Plant; the Duane Arnold Energy Center; its IPL and SBWGE electric and gas assets; the WPL transmission assets; international investments in Brazil, China, New Zealand, and Mexico; and several other non-regulated businesses. AEC specifically decided to sell its Illinois water utility as part of a "back-to-basics" strategic focus that included the sale of WPL's Beloit, Wisconsin water system assets to the City of Beloit in November 2003, and the sale of the Ripon, Wisconsin water assets to the City of Ripon as of July 2005. Selling the South Beloit water assets to Illinois-American would complete the divestiture of all remaining Alliant Energy water assets and would support the overall initiative to divest all Illinois utility assets.

Ms. Siehr testified that SBWGE water customers will benefit from the operating efficiencies of the Illinois-American system, which will be enhanced by the acquisition of SBWGE's water assets. Illinois-American is the largest investor-owned water utility in Illinois. The acquisition will allow Illinois-American to (a) use operating efficiencies associated with spreading consolidated management costs over a wider customer base; (b) improve borrowing costs and buying power; and (c) enhance and integrate critical resources in management, technology, engineering, water quality, customer services and source of supply planning. The acquisition is a part of Illinois-American's strategy to continue to provide value to customers and focus exclusively on the needs of water and wastewater systems.

Richard Potter testified regarding the nature of the South Beloit water system, as well as the process used by Alliant Energy to sell its Illinois water assets. He explained that SBWGE's South Beloit water system is part of what was historically an integrated water system serving the greater Beloit and South Beloit area. The South Beloit water system is composed of approximately 34 miles of distribution water mains, ranging in size from 4 to 16 inch diameter. Within the distribution system there are approximately 250 hydrants and 2100 main-to-curb services, plus associated water meters.

SBWGE's only water production facility is Well No. 3, located at 426 Pershing Avenue in South Beloit. However, Well No. 3 was placed in emergency standby status due to elevated radionuclide levels; it is currently not available for the routine production of water. When operational, this well can produce approximately 1400 GPM or 2 MGD

of water. SBWGE has no water storage facilities in the South Beloit public water supply system. All water supply and storage needs are provided by connection to the City of Beloit public water supply system through 15 main interconnections crossing the Wisconsin-Illinois state line, as provided for in a wholesale water services agreement between the City of Beloit and SBWGE. With an initial term of 25 years, this agreement provides for SBWGE to purchase water exclusively from the City of Beloit on a wholesale basis, and the City of Beloit has the first opportunity to supply SBWGE with all water necessary to meet SBWGE's current and future water requirements. The agreement also provides the City of Beloit with the exclusive right to operate SBWGE's Well No. 3, subject to remediation of water quality issues, and subject to successful negotiation of a lease agreement between the parties.

Regarding the process used by Alliant Energy to sell its Illinois water assets, Mr. Potter stated that starting in 2002, SBWGE initially offered to sell the South Beloit water system to the City of South Beloit. This occurred before any competitive bidding process occurred. However, SBWGE had not sought a water rate adjustment since 1986, and substantial investments were made in the water system since then. Mr. Potter concluded that therefore, SBWGE's operating revenues would not support a purchase price that was even close to the net book value of the South Beloit water system assets. As a result, SBWGE temporarily suspended its efforts to sell the South Beloit water system. In October of 2003, SBWGE filed with the Illinois Commerce Commission for a water rate adjustment. Subsequent to this filing, SBWGE again approached the City of South Beloit regarding acquisition of its South Beloit water assets. However, the City of South Beloit remained unwilling to purchase the South Beloit water system at a price near its net book value.

Because negotiations were unsuccessful with the City of South Beloit, as well as with the City of Ripon, Alliant Energy issued an "Offering Memorandum" in May of 2004. The "Offering Memorandum" solicited indicative bids for purchase of both its Ripon and South Beloit water utilities. This solicitation went out to about 14 potential bidders, each of whom had the option to submit bids for the purchase of both Ripon and South Beloit water assets, or just one of these assets. SBWGE received non-binding indicative bids from four parties. However, one bidder was the initial clear stand-out with the highest bids for both the Ripon and South Beloit water systems. Face-to-face exclusive negotiations ensued with the initial high bidder. During the course of negotiations however, this bidder was unable to reconcile issues and requirements related to the Wisconsin Utility Holding Company Act ("WUHCA") if they were to own the Ripon water system. As a result, this party withdrew from negotiations for both the Ripon and South Beloit water assets. It was not interested in acquiring just the South Beloit water system.

Subsequently, exclusive negotiations commenced with the next- highest bidder for the Ripon and South Beloit water assets, Illinois-American. Illinois-American personnel were aware of potential WUHCA issues related to ownership of the Ripon water system; they had investigated ways to mitigate these problems. While Illinois-American management expressed interested in acquiring both the Ripon and South

Beloit water assets, Illinois-American management ultimately concluded that Illinois-American was not able to satisfactorily resolve the WUHCA issues. However, they were still interested in acquiring only the South Beloit water assets and negotiations continued.

After several weeks of negotiations, the parties signed a Letter of Intent ("LOI") on October 26, 2004 for the sale of the South Beloit water system to Illinois-American. The LOI had provisions for resolving several key issues, and it established a purchase price of \$4.1 million. The LOI was also renewed and extended several times to allow for continued progress in resolving these issues. Eventually, on June 24, 2005, Illinois-American and SBWGE executed an Asset Purchase Agreement for the sale of the South Beloit water system, as provided for in the LOI.

Mr. Potter also explained the reasons why Illinois-American seeks to expand SBWGE's service territory and include areas outside of the corporate boundary of the City of South Beloit in its Certificate of Public Convenience and Necessity. He testified that the new areas are either contiguous to the City of South Beloit, or they are completely surrounded by the City of South Beloit. In these areas, there are no water supply systems other than private wells. Also, some new areas were included in the proposed expanded territory that are adjacent to South Beloit's existing water mains, but are not within the boundary of South Beloit. These mains connect to areas that are within South Beloit and are adjacent to areas that are likely to be annexed by the City of South Beloit in the future, as part of planned developments.

Mr. Potter stated there was another reason to include areas outside of the boundary of the City of South Beloit. In the far northeast portion of the certificate area, along the Wisconsin and Illinois border, there is a potential water main extension project. This project depends on growth needs and other operational issues, but it would involve the extension of the water main along Gateway Boulevard in Beloit, into South Beloit. This extension would create a loop in the greater Beloit and South Beloit water systems that would improve operational capabilities to serve customers in both Beloit and South Beloit. The boundary for the included area of the certificate reflects the projected alignment of this main extension, as well as associated planned development.

Mr. Potter stated that SBWGE is seeking permission to permanently abandon its service area and discontinue providing water service in its current service area. Upon the closing of the sale to Illinois-American Water, there will be no need for SBWGE to provide water service in its current service area since Illinois-American will take over the provision of water service. Therefore, SBWGE is requesting approval to permanently abandon the provision of water service in all areas served by SBWGE as of the date of closing the transaction, pursuant to Section 8-508 of the Act.

Mr. Potter stated that SBWGE does not have any record of any existing certificates, and that SBWGE management believe that SBWGE is grandfathered from having to obtain a certificate because it has existed as a public utility since 1908, prior

to any legislation requiring a certificate. However, Illinois-American's request for a certificate is necessary in order to afford the customers in that area a continued source of water service.

Illinois-American

Bob Khan, the Manager of Project Delivery and Developer Services for the Chicago-Metro Division of Illinois-American Water, testified that IAWC's requested certificate covers the area that is currently served by SBWGE. Additionally, IAWC's proposed service area includes land that is not included in South Beloit's current service area, but is included within the most recent corporate boundary of the City of South Beloit and represents a logical extension of the existing SBWGE service area. As such, the requested certificate will allow Illinois-American to provide water service in the area presently served by SBWGE without interruption. Additionally, the requested certificate will allow Illinois-American to provide necessary service to customers in areas that abut the area currently served by SBWGE. Illinois-American seeks certification for all of the areas that are currently annexed to the City of South Beloit. Certification is also sought for areas that are surrounded on three sides by the existing system. Mr. Kahn testified that the extension of water service to these areas from the SBWGE system is logical and it is at the least-cost.

Mr. Khan further testified that personnel at the Joint Petitioners are unaware of any boundary issues with any nearby water systems. The proposed service area does not enter the Villages of Rockton or Roscoe, except for some small areas which are already served by SBWGE. The certificated area would represent a new district within the Chicago-Metro Division of Illinois-American. Mr. Khan averred that, after the transaction, Illinois-American will remain subject to all applicable laws, rules, regulations, and rates.

Mr. Khan explained that the transaction at issue will include the assumption of the Agreement for the Provision of the Wholesale Water Utility Service from Beloit, Wisconsin to SBWGE, including the First Amendment to that Agreement. The assumption of this Agreement will allow IAWC to purchase wholesale water for the SBWGE system from the City of Beloit at the same pressure and quantity as that which SBWGE had before part of the water system was sold to the City of Beloit. Mr. Khan opined that market conditions in Illinois after the consummation of the reorganization will be substantially the same as those that currently exist. The Asset Purchase Agreement, therefore, is not likely to have a significant adverse effect on competition in Illinois.

Mr. Khan stated that Illinois-American is the largest water and wastewater utility in Illinois. It has many years of experience managing and supervising the provision of water service to areas similar to the SBWGE service area. According to Mr. Khan, the Asset Purchase Agreement will not adversely affect Illinois-American's ability to provide adequate, reliable, efficient, safe, and least-cost water service. Mr. Khan stated that the residents of the area in question will benefit from Illinois-American's expertise and

experience in providing water service, and that Illinois-American has the technical, financial, and managerial ability to operate and maintain a public water supply and distribution system, as well as to provide a public water supply for the area. He concluded that granting the requested certificate would be in the public interest.

Mr. Khan determined that he should supplement his direct testimony in order to provide clarification regarding the joint petitioners' requested relief, and to proffer an official map and metes and bounds legal description of the proposed service area. Mr. Khan filed supplemental testimony on March 17, 2006, which he subsequently revised on March 28, 2006. This supplemental testimony clarified exactly what territory IAWC sought.

Michael J. Hoffman, a Senior Financial Analyst, in the Rates & Regulations Department of Illinois-American, testified that his responsibilities in this docket primarily involve the preparation and presentation of rate, financial, and accounting information. Mr. Hoffman proposed that from and after the effective date of the acquisition, and until such time as a changes are approved by the Commission, Illinois-American will serve the customers located within the area previously certificated to SBWGE under SBWGE's schedule of rates and rules for water service currently in effect (Ill. C. C. No. 9,) on file with the Chief Clerk's Office of the Commission. As such, the transition will not have a negative rate impact on customers.

Mr. Hoffman testified that Illinois-American has access to all of the necessary funds to support the purchase through its cash management arrangement with its parent company, American Water Works Company, Inc. ("AWWC"). This cash management arrangement was approved by the Commission in Docket 04-0582. Illinois-American will finance the acquisition initially with internally-generated funds and/or short-term debt. To the extent that short-term debt is required, permanent financing will, ultimately, be provided through a combination of long-term debt and equity capital. Mr. Hoffman stated that the purchase price of \$4,100,000 for the South Beloit water system is less than either the book value or estimated rate base. The purchase price amount, \$4,100,000, also represents only 0.79% of its IAWC's long-term capital structure. Given the relatively diminutive size of this transaction in comparison to IAWC's total long-term capital structure, Mr. Hoffman averred that it is unlikely that this acquisition will impair IAWC's ability to raise necessary capital on reasonable terms while still maintaining a reasonable capital structure.

Mr. Hoffman offered proposed journal entries to record the transaction, which were shown on Exhibit MJH-1.1, which is attached to IAWC Exhibit No. MJH-1.0. The first journal entry proposed is the initial recording of the \$4,100,000 payment for the assets as a debit to Account 104-Utility Plant Purchased or Sold and a credit to Account 131-Cash. The second entry proposed is to transfer the balance in Account 104 to Utility Plant in Service, Accumulated Depreciation, and Advances for Construction, with any remaining balance clearing to Account 114-Utility Plant Acquisition Adjustment. Within six months from the date of the completed acquisition, Illinois-American will file with the Commission, as instructed in Account 104, Subpart B of 83 Ill. Adm. Code 605

(Uniform System of Accounts for Water Utilities), journal entries to clear from this account the amounts recorded therein. IAWC proposes to dispose of the balance recorded in Account 114-Utility Plant Acquisition Adjustment through a one-time charge to Account 426-Miscellaneous Non-Utility Expenses, at the time when final journal entries are recorded.

Mr. Hoffman testified that Illinois-American obtained information regarding the cost of SBWGE's water assets from SBWGE's 2004 Annual Report to the Commission, an operational and engineering review of the system, recent financial statements, and the final order in SBWGE's most recent rate case. IAWC proposes that the depreciation rates established in Docket No. 03-0677, as shown in IAWC Exhibit MJH 1.2, should remain in effect after the purchase of the South Beloit water system occurs.

Mr. Hoffman testified that Illinois-American maintains its books in such a manner so that it can determine the cost-of-service for each rate area it serves. From and after the effective date of the Asset Purchase Agreement, and until such time as changes are approved by the Commission, Illinois-American will continue to maintain its books and records, including, but not limited to its continuing property records, in such a manner so that it can determine the cost of service for each service rate area, including the rate area previously served by SBWGE.

Mr. Hoffman testified that the Asset Purchase Agreement will not result in the unjustified subsidization of non-utility activities by Illinois-American or its customers, because neither Illinois-American nor SBWGE engages in a significant level of non-utility activity at the present time. To the extent that Illinois-American engages in such activities, currently or in the future, Mr. Hoffman stated that, IAWC will continue to maintain its books and records in such a manner as to accurately and reasonably allocate utility and non-utility activities, and to allow the Commission to identify those costs and facilities that are properly included for rate-making purposes.

Mr. Hoffman stated that IAWC will not seek recovery of the cost of this purchase in rates. All resulting savings will be reflected in rates as is determined in future rate proceedings. According to Mr. Hoffman and Mr. Kahn, Illinois-American is committed to providing safe, efficient and least-cost service.

Commission Staff

Thomas Q. Smith, an Economic Analyst in the Water Department of the Commission's Financial Analysis Division, testified on behalf of the Commission Staff. Mr. Smith averred that he had reviewed the Joint Petitioners' requests in light of the requirements set forth in Sections 7-204(b)(1), 7-204(b)(5), 7-204(b)(6) and 8-406 of the Act. Regarding 7-204(b)(1), Mr. Smith stated that he found no evidence that the proposed transaction would diminish IAWC's ability to provide adequate, reliable, efficient, safe and least cost water service to customers. Similarly, based on IAWC's representation that the newly-certificated area would remain subject to Illinois law, Mr. Smith stated that the criteria specified in 7-204(b)(5) appeared to have been met.

Given the relatively small size of the South Beloit service area, he concluded that the potential impact, if any, on competition, resulting from its sale to IAWC would be *de minimis*. As such, the transaction meets the criteria set forth in Section 7-204 (b)(6) of the Act.

Mr. Smith opined that, based on this review and analysis, it would be reasonable for the Commission to grant IAWC a certificate to provide water service in the area proposed by IAWC under Section 8-406 of the Act. Mr. Smith also recommended that IAWC serve the South Beloit customers according to the rules and regulations currently contained in South Beloit's tariffs. Finally, with regard to South Beloit's Section 8-508 request for approval to abandon its water system, Mr. Smith opined that since IAWC will purchase and operate the water system, there is no need for South Beloit to operate the system. In Mr. Smith's opinion, South Beloit's request to abandon its service territory should be granted.

Michael McNally, a Senior Financial Analyst in the Finance Department of the Commission's Financial Analysis Division, testified on behalf of Commission Staff. In his judgment, the proposed transaction meets the requirements of Section 7-204(b)(4) of the Act, as its impact on the financially healthy IAWC would be *de minimis*. He recommended that the Commission find that the proposed reorganization will not significantly impair the successor utility's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure.

The Joint Petitioners also seek issuance of a certificate of public convenience and necessity to IAWC pursuant to Section 8-406 of the Act. Section 8-406(b)(3) of the Act requires that, before issuing a requested certificate of convenience and necessity, the Commission must find "that the utility is capable of financing the proposed construction without significant adverse financial consequences for the utility of its customers." Although the language in Section 8-406(b)(3) refers only to new construction, its standard is appropriate for a certification related to investments in pre-existing facilities. Mr. McNally stated that the estimated cost of the proposed transaction is diminutive in relation to IAWC's financial resources. Thus, he recommended that the Commission find that the proposed transaction will have no significant adverse financial consequences for IAWC or its customers.

Mike Luth, who is from the Rates Department of the Commission's Financial Analysis Division, also testified on behalf of Commission Staff, setting forth his evaluation of tariff and rate design issues resulting from the IAWC's proposed ownership and operation of South Beloit's water system assets. Mr. Luth completed a bill comparison between current IAWC charges and SBWGE's charges. This comparison showed that charges under IAWC rates are higher than under SBWGE's current rates.

The Commission is required to find, under Section 7-204(b)(7) of the Act, that a proposed reorganization is not likely to adversely impact rates. Therefore IAWC's representation that it will maintain current South Beloit rates is important. Mr. Luth

stated that SBWGE's rates should remain in place, if the IAWC purchase of SBWGE's water system is approved by the Commission. In the future, if IAWC seeks a rate increase and proposes to charge the same rates to the South Beloit territory as it does other IAWC service areas, consideration should be given to the effect of water supply and treatment costs on South Beloit rates because SBWGE has an agreement in effect to purchase water from the City of Beloit for approximately 22 years. Furthermore, Mr. Luth stated that if the Commission approves the purchase of the South Beloit water system by IAWC, IAWC should be required to maintain its books so that the SBWGE cost of service can be determined separately from the cost of service for the other IAWC service areas.

Mary H. Everson, from the Accounting Department of the Commission's Financial Analysis Division, also testified on behalf of Commission Staff. Ms. Everson made several recommendations to the Commission regarding the requirements of Sections 7-204(b)(2), 7-204(b)(3), and 7-204(c) of the Act. Regarding the requirements of Section 7-204(b)(2), Ms. Everson recommended that the Commission find that the proposed reorganization will not result in the unjustified subsidization of non-utility activities by IAWC or its customers, as IAWC does not engage in a significant level of non-utility activity. Also, IAWC has an operating agreement with its affiliates that has been approved by the Commission.

Ms. Everson averred that IAWC has an approved affiliate agreement which governs transactions with affiliates. This agreement also allows for the proper allocation of utility and non-utility costs. Ms. Everson therefore recommended that in accordance with Section 7-204(b)(3) of the Act, the Commission should find that costs and facilities are fairly and reasonably allocated between utility and non-utility activities, in such a manner that the Commission may identify those costs and facilities that are properly included by Illinois-American for ratemaking purposes.

Regarding any savings that may occur as a result of this transaction, Ms. Everson recommended that the Commission find that any savings resulting from the proposed reorganization must be allocated to ratepayers in future IAWC rate proceedings in accordance with Section 7-204(c)(i) of the Act.

Ms. Everson also recommended that the Commission find that the transaction costs should be recorded in Account 426, "Miscellaneous Non-Utility Expense" and that those transaction costs not be passed on to ratepayers in IAWC's future rate proceedings in accordance with Section 7-204(c)(ii) of the Act.

With regard to SBWGE's water surcharge rider, Ms. Everson stated that IAWC averred, in response to data requests, that it would assume the responsibility for any under-collection balance, which will be determined in the final reconciliation of the South Beloit's water surcharge. With this understanding, Ms. Everson further recommended that this Commission grant IAWC permission to assume and operate the purchased water surcharge rider currently in effect for customers of SBWGE. Ms. Everson also recommended that the Commission order SBWGE to provide copies of all workpapers,

schedules and supporting documents provided to IAWC related to South Beloit's final reconciliation of its purchased water surcharge rider to the Commission's Manager of Accounting within 30 days of the completion of its reconciliation and transfer of documents to IAWC, or 60 days after closing, whichever comes first.

In addition, Ms. Everson recommended that this Commission order IAWC to provide copies of any amendments or changes to the wholesale agreement to the Manager of Accounting within 30 days of the effective date of such amendments or changes. She also recommended that the Commission order IAWC to file its final journal entries with the Commission, providing a copy to the Manager of Accounting, within 6 months of the closing of this transaction.

At trial, the Joint Petitioners stipulated to the following:

SBWGE agreed to provide copies to the Manager of Accounting of all documents related to SBWGE's reconciliation of its purchased water surcharge costs and revenues that are provided to Illinois-American within 30 days of the completion of its reconciliation and transfer of documents to Illinois-American or 60 days after closing, whichever comes first.

Illinois-American agreed to provide copies of any future amendments to the Wholesale Water Agreement with the City of Beloit, Wisconsin to the Commission with a copy to the Manager of Accounting within 30 days after the effective date of the amendment.

Illinois-American agreed to furnish a copy of the final journal entries to the Commission within 6 months of the closing with a copy to the Manager of Accounting.

Analysis and Conclusions

The Commission has reviewed the entire record and is satisfied that the evidence proffered by Illinois-American comports with the requisites set forth in has made the requisite demonstrations under Section 8-406(b) of the Act. The municipalities upon which, this docket could have an effect received notice of this proceeding in accordance with Commission rules. None of these municipalities have entered an appearance in this proceeding. The evidence presented established that the proposed reorganization is not likely to have a significant impact on competition in Illinois markets.

The Joint Petitioners have presented credible evidence establishing that that the purchase and operation of the water distribution system in South Beloit is necessary to provide adequate, reliable, and efficient water service to customers within the service area. Further, this Commission is persuaded that Illinois-American's request for a certificate to serve an area somewhat larger than that which was previously served by SBWGE is logical and appropriate. After reviewing the alternatives available to accomplish this end, this Commission is convinced that the proposed purchase and

operation of the water distribution system by Illinois-American is the least-cost means of satisfying the customers' needs. Further, the evidence established that Illinois-American is capable of efficiently managing and supervising the water system and that Illinois-American is capable of financing the acquisition without significant adverse financial consequences. The proposed reorganization will not diminish Illinois-American's ability to provide adequate, reliable, efficient, safe and least-cost public utility service.

Moreover, since the rates will remain the same after the acquisition, the proposed reorganization is not likely to result in any adverse rate consequences for retail customers. The testimony further established that the cost of the acquisition is relatively small, in relation to Illinois-American's long-term capital structure, which makes it unlikely that this acquisition could impair its ability to raise necessary capital on reasonable terms while still maintaining a reasonable capital structure. We further note that Mr. Hoffman's testimony established that Illinois-American does not engage in a significant amount of non-utility activities, and that it maintains its books and records in a manner that accurately and reasonably allocates utility and non-utility activities. Thus, based on the evidence before us, we conclude that the proposed reorganization will not result in the unjustified subsidization of non-utility activities by the utility or its customers.

In light of the above, we conclude that SBWGE should be authorized to permanently abandon the provision of water service to all areas served by SBWGE, effective as of the date of the closing of the Acquisition, pursuant to Section 8-508 of the Act. Under Illinois-American's ownership and operation, SBWGE's customers will continue to be charged the same rates as those that are currently applicable under SBWGE ownership and operation of the South Beloit water system until such time as a revision in rates is authorized by the Commission.

Findings and Ordering Paragraphs

The Commission, having considered the entire record and being fully advised in the premises, is of the opinion and finds that:

- (1) Illinois-American Water Company is a "public utility" engaged in the business of furnishing water and waste water utility service to the public in portions of the State of Illinois;
- (2) South Beloit Water Gas and Electric Company is a corporation duly organized and existing under the laws of the State of Illinois. South Beloit Water Gas and Electric Company is a wholly-owned subsidiary of Wisconsin Power and Light Company, a Wisconsin public utility, which is a wholly-owned subsidiary of Alliant Energy Corporation. South Beloit Water Gas and Electric Company provides water services to approximately 2,000 customers in South Beloit, Illinois and parts of Winnebago County, Illinois and is a "public utility" within the meaning of the Act;

- (3) the Commission has jurisdiction over Illinois-American Water Company, South Beloit Water Gas and Electric Company, and of the subject- matter herein;
- (4) the recitals of fact and conclusions of law and fact reached in the prefatory portion of this Order are supported by the record herein and are hereby adopted as findings of fact and conclusions of law;
- (5) Illinois-American Water Company's proposal to purchase the water assets of South Beloit Water Gas and Electric Company and to furnish water service to customers located in the proposed certificated area complies in all respects with the applicable rules and regulations of the Commission, is in the public interest, and the public will be inconvenienced thereby;
- (6) there is a public need and necessity for water service to the parcel described in Appendix A hereto, and the construction, operation, and maintenance of a public water supply and distribution system to serve the parcel described in Appendix A and the transaction of public water utility service by IAWC to the parcel will promote the public convenience and necessity;
- (7) when the purchase of the South Beloit water system by Illinois-American Water Company becomes effective, it shall be appropriate for South Beloit Water Gas and Electric Company to abandon operation of the South Beloit water system;
- (8) the rules, regulations, and rates contained in tariffs presently applicable to South Beloit Water Gas and Electric Company and its customers, labeled as Ill.C.C. No. 9, and currently on file with the Chief Clerk's office of the Commission, shall continue to be applicable to Illinois-American Water Company and its customers in the South Beloit Service area, until such time that the Commission approves new rules, regulations, or rates;
- (9) a Certificate of Public Convenience and Necessity should be granted to Illinois-American Water Company to serve the parcel described in Appendix A, which is attached hereto;
- (10) the Asset Purchase Agreement between the South Beloit Water Gas and Electric Company and Illinois-American Water Company should be approved;
- (11) the reorganization proposed by South Beloit Water Gas and Electric Company and Illinois-American Water Company will not result in unjustified subsidization of non-utility activities;
- (12) the costs and facilities must be fairly and reasonably allocated between utility and non-utility activities in such a manner that the Commission Staff

can identify those costs and facilities which are properly included by Illinois-American Water Company for ratemaking purposes;

- (13) the proposed reorganization will not significantly impair the successor Illinois-American Water Company's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure;
- (14) the costs involved in effectuating the transaction that is the subject of this docket shall not be passed on to ratepayers in any future rate proceeding, and, any savings resulting from this transaction shall be allocated to ratepayers in any future rate proceeding;
- (15) Illinois-American Water Company should be granted permission to assume and operate South Beloit's water surcharge rider, including any under-collection balances determined as a result of South Beloit Water Gas and Electric Company's final reconciliation;
- (16) South Beloit Water Gas and Electric Company shall furnish copies of all workpapers, schedules, and supporting documents that were provided to Illinois-American Water Company that are related to the purchased water surcharge rider to the Commission's Manager of Accounting within 30 days of the completion of a reconciliation docket regarding that purchased water surcharge rider, as well as transfer documents to Illinois-American Water Company, 60 days after the closing of the transaction at issue in this docket;
- (17) the form of the proposed journal entries presented on Exhibit MJH-1.1 attached to IAWC Exhibit No. MJH-1.0 to record this transaction on Illinois-American's books is appropriate and should be approved; and
- (18) upon the change in ownership and operation of the service area, Illinois-American Water Company shall apply the rates that are currently applicable under the ownership and operation of South Beloit Water Gas and Electric Company to customers in the service area covered under the Asset Purchase Agreement and surrounding territory that is certificated pursuant to the instant docket, until such time as revision in these rates are authorized by the Commission;
- (19) the transaction that is the subject of this docket will not diminish the utility's ability to provide adequate, reliable, efficient, safe and least-cost public utility service;
- (20) the transaction that is the subject of this docket provides that Illinois-American Water Company will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois public utilities;

- (21) the transaction that is the subject of this docket is not likely to have a significant adverse effect on competition in Illinois markets;
- (22) the transaction that is the subject of this docket is not likely to result in any adverse rate impacts on retail customers.

IT IS THEREFORE ORDERED that, pursuant to Section 8-406 of the Illinois Public Utilities Act, a Certificate of Public Convenience and Necessity is hereby granted to Illinois-American Water Company to construct, own, operate and maintain a public water supply and distribution system to serve the public in South Beloit Illinois, as described in the prefatory portion of this Order and shown on Appendix A, attached hereto, and that said Certificate provides as follows:

CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

IT IS HEREBY CERTIFIED that the public convenience and necessity require Illinois-American Water Company to purchase the water system assets from South Beloit Water Gas and Electric Company and to construct, operate, and maintain a water supply and distribution system to serve the area described and shown on Appendix A to this Order.

IT IS FURTHER ORDERED that the area described in Appendix A hereto shall be included in Illinois-American Water Company's Chicago Metro-Division.

IT IS FURTHER ORDERED that Illinois-American Water Company shall maintain its books and records in such a manner so that the cost of service in the South Beloit service area covered under the Asset Purchase Agreement and the Certificate of Public Convenience and Necessity are separate and distinguishable from other Illinois-American Water Company service areas.

IT IS FURTHER ORDERED that the Asset Purchase Agreement between South Beloit Water Gas & Electric Company and Illinois-American Water Company is approved.

IT IS FURTHER ORDERED that Illinois-American Water Company must file revised tariff sheets in order to incorporate the South Beloit Area into the Chicago Metro Division.

IT IS FURTHER ORDERED that the proposed reorganization shall not result in unjustified subsidization of non-utility activities.

IT IS FURTHER ORDERED that the costs and facilities must be fairly and reasonably allocated between utility and non-utility activities, and in such a manner that the Commission may identify those costs and facilities that are properly included by Illinois-American Water Company for ratemaking purposes.

IT IS FURTHER ORDERED that the costs incurred in effectuating the transaction that is the subject of this docket shall not be passed on to ratepayers in any future rate proceeding.

IT IS FURTHER ORDERED that Illinois-American Water Company is granted permission to assume and continue to operate South Beloit Water Gas & Electric Company's water surcharge rider, which includes any under-collection balances determined as a result of South Beloit's final reconciliation of that surcharge.

IT IS FURTHER ORDERED THAT any savings resulting from the transaction that is the subject of this docket shall be allocated to ratepayers in future rate proceedings filed by Illinois-American Water Company.

IT IS FURTHER ORDERED that South Beloit Water Gas & Electric Company shall furnish copies of all workpapers, schedules, and supporting documents provided to Illinois-American Water Company that are related to the purchased water surcharge rider to the Commission's Manager of Accounting within 30 days of the completion of any reconciliation proceedings regarding that surcharge. South Beloit Water Gas & Electric Company shall also furnish copies of work papers, schedules and supporting documents to the Commissions Manager of Accounting regarding the transfer to Illinois-American 60 days after closing .

IT IS FURTHER ORDERED that the form of the proposed journal entries to record this transaction by Illinois-American presented on Exhibit MJH-1.1 attached to IAWC Exhibit No. MJH-1.0 is approved.

IT IS FURTHER ORDERED that Illinois-American Water Company must provide copies of any future amendments to the Wholesale Water Agreement with the City of Beloit, Wisconsin to the Commission with a copy to the Commission's Manager of Accounting within 30 days after the effective date of the amendment.

IT IS FURTHER ORDERED that Illinois-American Water Company shall furnish a copy of the final journal entries regarding the transaction that is the subject of this docket to the Commission within six months of the closing of the transaction that is the subject of this docket with a copy to the Commission's Manager of Accounting.

IT IS FURTHER ORDERED that South Beloit Water Gas and Electric Company is authorized to permanently abandon providing water service to all areas it served, effective as of the date of the closing of the acquisition, pursuant to Section 8-508 of the Act.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Illinois Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By order of the Commission this 7th day of June, 2006.

(SIGNED) CHARLES E. BOX

Chairman

Appendix A**LEGAL DESCRIPTION OF CERTIFICATED AREA**

All that part of Sections 3, 4, 5, 6, 7, 8, 9, 10, 11, 15, 16, 17 and 18, Township 46 North, Range 2 East of the 3rd P.M., and all that part of Sections 1 and 12, Township 46 North, Range 1 East, of the 3rd P.M., located in Winnebago County, Illinois, being more particularly described as follows:

Commencing as a point of reference at the Northeast corner of NE $\frac{1}{4}$ of fractional Section 1; Township 46 North, Range 1 East, of the 3rd P.M.; Thence East along the North line extended of said fractional Section 1, also know as, the Illinois and Wisconsin State line, to the Northeast corner of the W $\frac{1}{2}$ of the W $\frac{1}{2}$ of fractional Section 2, Township 46 North, Range 2 East of the 3rd P.M.; Thence South along the East line of said W $\frac{1}{2}$ of the W $\frac{1}{2}$ of fractional Section 2 to the Southeast corner of the W $\frac{1}{2}$ of the W $\frac{1}{2}$ of fractional Section 2; Thence West along the South line extended of said W $\frac{1}{2}$ of the W $\frac{1}{2}$ of fractional Section 2 to Northeast corner of the NW $\frac{1}{4}$ of the NE $\frac{1}{4}$ of Section 10; Thence South along the West line of said NW $\frac{1}{4}$ of the NE $\frac{1}{4}$ of Section 10 to the Southwest corner of Lot 18 of Willoughby North Subdivision of the NW $\frac{1}{4}$ of the NE $\frac{1}{4}$ of Section 10; Thence Southeasterly to the Southeast corner of Lot 16 of said Willoughby North Subdivision; Thence East along the South line extended of Lot 16 of said Willoughby North Subdivision to the Northeast corner of the SW $\frac{1}{4}$ of the NE $\frac{1}{4}$ of Section 10; Thence South along the East line of said SW $\frac{1}{4}$ of the NE $\frac{1}{4}$ of Section 10 to the Southeast corner of the SW $\frac{1}{4}$ of the NE $\frac{1}{4}$ of Section 10; Thence West along the South line of said SW $\frac{1}{4}$ of the NE $\frac{1}{4}$ of Section 10 to the Southwest corner of the SW $\frac{1}{4}$ of the NE $\frac{1}{4}$ of Section 10; Thence South along the East line extended of the SW $\frac{1}{4}$ of Section 10 to the Southeast corner of the NW $\frac{1}{4}$ of Section 15; Thence West along the South line of said NW $\frac{1}{4}$ of Section 15 to the point of intersection with the Westerly Right of Way line of Interstate 90; Thence North following along said Westerly Right of Way line of Interstate 90 to the point of intersection with the North line of the W $\frac{1}{2}$ of the NW $\frac{1}{4}$ of Section 15; Thence West along the said North line of the W $\frac{1}{2}$ of the NW $\frac{1}{4}$ of Section 15 to the Northeast corner of the E $\frac{1}{2}$ of the NE $\frac{1}{4}$ of Section 16; Thence South along the East line of the said E $\frac{1}{2}$ of the NE $\frac{1}{4}$ of Section 16 to the Southeast corner of the E $\frac{1}{2}$ of the NE $\frac{1}{4}$ of Section 16; Thence West along the South line of the said E $\frac{1}{2}$ of the NE $\frac{1}{4}$ of Section 16 to the Southwest corner of the SE $\frac{1}{4}$ of the NE $\frac{1}{4}$ of Section 16; Thence North along the West line of the said SE $\frac{1}{4}$ of the NE $\frac{1}{4}$ of Section 16 to the Northwest corner of the SE $\frac{1}{4}$ of the NE $\frac{1}{4}$ of Section 16; Thence East along the North line of the said SE $\frac{1}{4}$ of the NE $\frac{1}{4}$ of Section 16, a distance of 165 feet, more or less, to the intersection of a line which bears North and South, adjoining the corporate limits of South Beloit and Roscoe; Thence North along the said line adjoining the corporate limits of South Beloit and Roscoe to the point of intersection with the South Right of Way line of Prairie Hill Road; Thence West following along the said South Right of Way line of Prairie

Hill Road to the point of intersection with the East line of the NE $\frac{1}{4}$ of Section 17; Thence South along the said East line of the NE $\frac{1}{4}$ of Section 17 to the Southeast corner of the NE $\frac{1}{4}$ of Section 17; Thence West along the South line extended of said NE $\frac{1}{4}$ of Section 17 to the Northeast corner of Lot 93 of Heraldry Arms, Plat No. 5; Thence South along the East line extended of said Lot 93 of Heraldry Arms, Plat No. 5, a distance of 1823.28 feet, more or less, to the southeasterly most corner of Lot 80 of Heraldry Arms, Plat No. 5; Thence West along the South line extended of said Lot 80 of Heraldry Arms, Plat No. 5, a distance of 423.21 feet, more or less, to the Southwest corner of Lot 79 of Heraldry Arms, Plat No. 5; Thence North along the West line extended of said Lot 79 of Heraldry Arms, Plat No. 5, a distance of 659.16 feet, more or less, to the southeasterly most corner of Lot 70 of Heraldry Arms, Plat No. 5; Thence West along the South line extended of said Lot 70 of Heraldry Arms, Plat No. 5, a distance of 241 feet, more or less, to the northeasterly most corner of Lot 37 of Heraldry Arms, Plat No. 3; Thence Northwesterly, along said Lot 37 of Heraldry Arms, Plat No. 3, adjoining a non-tangent circular curve which bears to the right and having a radius of 866 feet, a distance of 142 feet, more or less, to the easterly most corner of Lot 51 of Heraldry Arms, Plat No. 4; Thence Southwesterly, along the southeasterly line of said Lot 51 of Heraldry Arms, Plat No. 4, a distance of 117 feet, more or less, to the northeasterly most corner of Lot 52 of Heraldry Arms, Plat No. 4; Thence South along the East line extended of said Lot 52 of Heraldry Arms, Plat No. 4, a distance of 185 feet, more or less, to the southeasterly most corner of Lot 53 of Heraldry Arms, Plat No. 4; Thence Southwesterly along the southeasterly line of said Lot 53 of Heraldry Arms, Plat No. 4, a distance of 184.36 feet, more or less, to the Southeast corner of Lot 54 of Heraldry Arms, Plat No. 4; Thence West along the South line extended of said Lot 54 of Heraldry Arms, Plat No. 4, a distance of 305 feet, more or less, to the Southwest corner of Lot 55 of Heraldry Arms, Plat No. 4; Thence North along the West line extended of said Lot 55 of Heraldry Arms, Plat No. 4, a distance of 1424.77 feet, more or less, to the Northwest corner of Lot 106 of Heraldry Arms, Plat No. 5; Thence West along the South line of the NW $\frac{1}{4}$ of Section 18 to the point of intersection with the East Right of Way line of Illinois Route No. 2; Thence North following along said East Right of Way line of Illinois Route No. 2 to the point of intersection with the North line of the S $\frac{1}{2}$ of the NW $\frac{1}{4}$ of Section 18; Thence West along the said North line of the S $\frac{1}{2}$ of the NW $\frac{1}{4}$ of Section 18 to the Southwest corner of the NW $\frac{1}{4}$ of the NW $\frac{1}{4}$ of Section 18; Thence North along the West line extended of said NW $\frac{1}{4}$ of the NW $\frac{1}{4}$ of Section 18 to the point of intersection with the southwesterly line extended of Lot 158 of Howlett Subdivision of the NE $\frac{1}{4}$ of Section 12, Township 46 North, Range 1 East, of the 3rd P.M.; Thence Northwesterly along the said southwesterly line extended of Lot 158 of Howlett Subdivision to the point of intersection with the South line of the N $\frac{1}{2}$ of the N $\frac{1}{2}$ of the NE $\frac{1}{4}$ of Section 12; Thence West along said South line of the N $\frac{1}{2}$ of the N $\frac{1}{2}$ of the NE $\frac{1}{4}$ of Section 12, a distance of 2251.13 feet, more or less, to the Southwest corner of Lot 135 of Howlett Subdivision; Thence North along the West line extended of said Lot 135 of Howlett Subdivision, a distance of 661.37 feet, more or less, to the Southeast corner of Lot 128 of Howlett

Subdivision, also known as, the N $\frac{1}{4}$ corner of Section 12; Thence West along the South line extended of said Lot 128 of Howlett Subdivision, a distance of 1328.74 feet, more or less, to the Southwest corner of Lot 115 of Howlett Subdivision of the S $\frac{1}{2}$ of Section 1, Township 46 North, Range 1 East of the 3rd P.M.; Thence North along the West line extended of said Lot 115 of Howlett Subdivision, also known as, the West line of the E $\frac{1}{2}$ of the SW $\frac{1}{4}$ of said Section 1, a distance of 816.85 feet, more or less, to the Northwest corner of Lot 110 of Howlett Subdivision; Thence East along the North line extended of said Lot 110 of Howlett Subdivision, a distance of 897.59 feet, more or less, to the Northern most Northeasterly corner of Lot 101 of Howlett Subdivision; Thence North along the West line extended of Lot 98 of Howlett Subdivision to the point of intersection with the North Right of Way line of Fisher Road; Thence Easterly following along said North Right of Way line of Fisher Road to the point of intersection with the West Right of Way line of Townline Avenue; Thence North following along said West Right of Way line of Townline Avenue to a point lying 392.68 feet South of and perpendicular to the North line of the NE $\frac{1}{4}$ of fractional Section 1, Township 46 North, Range 1 East of the 3rd P.M.; Thence West to a point lying 433.35 feet South of and perpendicular to said North line of the NE $\frac{1}{4}$ of fractional Section 1; Thence North, a distance of 433.35 feet, to the point of intersection with said North line of the NE $\frac{1}{4}$ of fractional Section 1; Thence East along said North line of the NE $\frac{1}{4}$ of fractional Section 1 to the point of beginning. Excluding that part of the SW $\frac{1}{4}$ of Section 9, Township 46 North, Range 2 East of the 3rd P.M., Winnebago County, Illinois, being more particularly described as follows:

Commencing as a point of reference at the Northeast corner of SW $\frac{1}{4}$ of Section 9, Township 46 North, Range 2 East of the 3rd P.M.; Thence South along the East line of said SW $\frac{1}{4}$ of Section 9 to the point of intersection with the North Right of Way line of Prairie Hill Road; Thence West following along said North Right of Way line of Prairie Hill Road to the point of intersection with the East Right of Way line of North Second Street; Thence North following along said East Right of Way line of North Second Street to the point of intersection with the North line of the SW $\frac{1}{4}$ of Section 9; Thence East along said North line of the SW $\frac{1}{4}$ of Section 9 to the point of beginning.